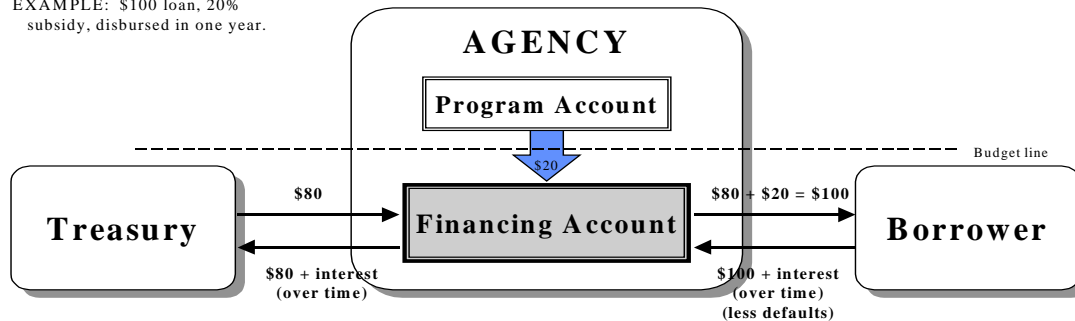


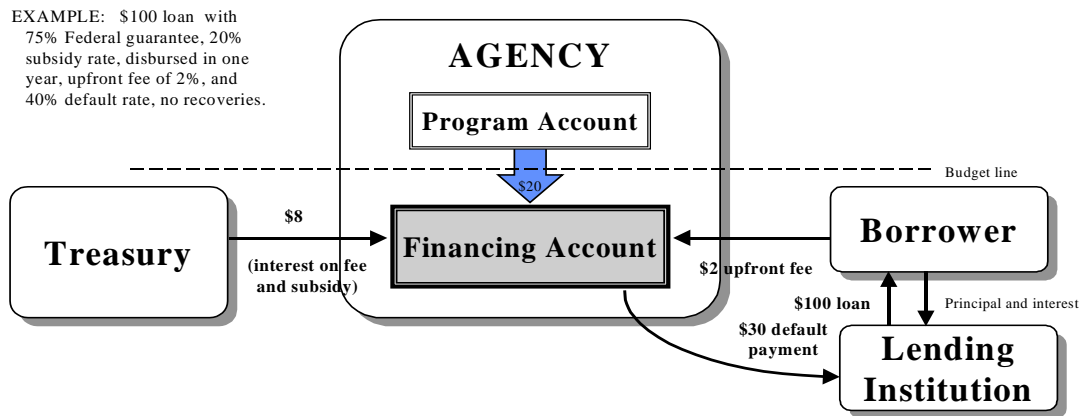
Credit Reform: Cash Flows for Direct Loans

EXAMPLE: \$100 loan, 20%
subsidy, disbursed in one year.



1. The Congress appropriates \$20 in subsidy budget authority to the **program account**.
2. The \$20 subsidy is obligated when the \$100 loan is obligated.
3. The \$20 subsidy is outlayed to the **financing account** at the time the \$100 loan is disbursed to borrower. Simultaneously, the **financing account** borrows the additional \$80 from the **U.S. Treasury** need to make the \$100 loan.
4. The **borrower** pays fees, interest, and principal to the **financing account** under the terms of the contract.
5. The **financing account** makes payments to the **U.S. Treasury** over time on the \$80 of borrowing. If the subsidy rate is accurate, the loan repayments (and other payments) to the **financing account** will be exactly the amount necessary to repay the original **Treasury** borrowing (\$80) plus interest.
6. If the subsidy is not accurate, a reestimate shall be made and, as necessary, either (1) an additional subsidy shall be disbursed from the **program account** to the **financing account** to cover the amount of the reestimate or (2) excess funds shall be moved from the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.

Credit Reform: Cash Flows for Loan Guarantees



1. Congress appropriates \$20 in subsidy budget authority to the **program account**.
2. The \$20 subsidy is obligated when the \$100 loan is obligated.
3. The **lending institution** lends a 75 percent government guaranteed \$100 loan to the **borrower**. When the loan is disbursed, \$20 in subsidy BA is outlayed to the **financing account**. The **borrower** pays a 2 percent upfront fee to the **agency**, which is deposited into the **financing account**.
4. Reserves (uninvested funds) are held in the **financing account** and earn interest.
5. The **borrower** pays principal and interest to the **lending institution**.
6. If the **borrower** defaults, the reserves held in the **financing account** are used to make claim payments to the **lending institution**. If the subsidy rate is accurate, the **financing account** will have exactly the reserves needed to cover all defaults and other subsidies for that cohort of loans.
7. If the subsidy is not accurate, a reestimate shall be made and, as necessary, either:
 - (a) additional subsidy shall be disbursed from the **program account** to the **financing account** to cover the amount of the reestimate or
 - (b) excess funds shall be moved from the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.